

2005-2006 INCENTIVE PLAN – SENIOR INVESTMENT OFFICER, FIXED INCOME (Ishii)

Quantitative Performance Measures

Weight	Factor	Performance Measure	Incentive Schedule	2 nd Quarter Status Report
45%	CalPERS Domestic Fixed Income (FI), Internal	Net of Fees, excess return in basis points relative to: Domestic Fixed Income (FI), Internal—CalPERS Custom Leh LPF {SW4KA1 – CALCCLP2}	0 basis points = 0 +40 basis points = 1.0 +60 basis points = 1.5	+105
10%	CalPERS Total Fund Performance	Net of Fees, excess return in basis points relative to total fund performance benchmark. Comp-PERS Total Fund All Portfolios- CalPERS Policy Index (Daily) {SJ1CA1 – CPERSTO2}	-40 basis points = 0 0 basis points = 1.0 +20 basis points = 1.5	+ 94
10%	Other Managed Fixed Income Funds	Gross of Fees, excess return in basis points relative to: <ul style="list-style-type: none"> (4%) High Quality LIBOR Fund – PERS Custom Daily LIBOR {SW3X – CPERSLI2} (3%) Short Duration Fund – PERS Custom Daily Libor (SW9D – VI7D) (3%) CalPERS Internally Managed Short Term - State Street STIF net of fees {SJ10 – Y8K2} 	0 basis points = 0 +5 basis points = 1.0 +8 basis points = 1.5 0 basis points = 0 +30 basis points = 1.0 +45 basis points = 1.5 0 basis points = 0 +10 basis points = 1.0 +15 basis points = 1.5	+ 5 + 11 + 17

2005-2006 INCENTIVE PLAN – SENIOR INVESTMENT OFFICER, FIXED INCOME (Ishii) – Continued

Quantitative Performance Measures (cont.)

Weight	Factor	Performance Measure	Incentive Schedule	2 nd Quarter Status Report
5%	CalPERS Internal Passive Currency Overlay Management	Net of Fees, return in basis points relative to: Passive currency overlay portfolio – PERS Pareto CCR {SW5PB – YET2}	> -50 basis points = 0 > -30 basis points = 1.0 > -20 basis points = 1.5	- 15
5%	Active International Fixed Income Managers	Net of Fees, excess returns in basis points relative to: Aggregate of the International Fixed Income Managers- CalPERS World Govt X US: {SJDCA1 – CALWGXU2}	0 basis points = 0 +40 basis points = 1.0 +60 basis points = 1.5	- 2
85%	Subtotal	Quantitative Measures		

Qualitative Performance Measures

Weight	Factor	Performance Measure	Incentive Schedule	Second Quarter Status Report
5%	Annual Plan	By 6/30/06, obtain approval by the IC of the Fixed Income Annual Plan for FY 2006/07	From Schedule	On Schedule
5%	Diversity Plan	By 6/30/06, implement all elements of the enterprise wide diversity plan that relate to the responsibilities of the investment office	From Schedule	On Schedule
5%	International Fixed Income	By 6/30/06, secure a decision by the Investment Committee on a policy for the tactical management of the currency hedge ratio.	From Schedule	Policy was presented to the Policy subcommittee and approved at the 6/10/05 meeting. IC approval was secured at the 8/15/05 meeting. Completed at the earliest possible dates.
15%	Subtotal	Qualitative Measures		
100%	Total	Quantitative and Qualitative Measures		

PERFORMANCE PLAN CHANGE REQUEST

Name Curtis Ishii Position Senior Portfolio Manager, Fixed Income

Part A: Addition of Performance Measure

Recommend the following Performance Measure be added to the Incentive Plan:

Weight	Factor	Performance Measure	Incentive Schedule
10%	CalPERS Opportunistic Programs	<ul style="list-style-type: none"> (5%) Net income from securities lending 	<\$60 MM = 0 \$90 MM = 1.0 \$105 MM = 1.5

Reason for addition:

This item was inadvertently dropped from this year's incentive compensation. This is a major program for fixed income and has been in the incentive compensation for the SIO of global fixed income for the last 6 years. Additionally, this is a more appropriate balance in the emphasis between the two programs in the opportunistic area.

Part C: Modification of Performance Measure

Recommend the Performance Measure(s) listed below be modified as indicated:

Description in Current Incentive Plan:

Weight	Factor	Performance Measure	Incentive Schedule
10%	Credit Enhancement	Credit Enhancement	0 contingent liability line or loss = 0 \$750 million contingent liability line and 0 loss = 1.0 \$1,125 billion and 0 loss = 1.5

Proposed description (changes shown in **bold**):

Weight	Factor	Performance Measure	Incentive Schedule
10%	CalPERS Opportunistic Programs	(5%) Credit Enhancement	\$0 revenue or 0 losses > 0 \$3.5 million in revenue and 0 losses = 1 \$5.25 million in revenue and 0 losses = 1.5

Reason for proposed change:

Portfolio Manager, Opportunistic Fixed Income changed Incentive Schedule last quarter (7/1-9/30/05); however, Senior Investment Officer's Incentive Schedule was not changed at that time.

Supervisor's Approval: Original signed by Anne Stausboll

Date January 25, 2006